

Arizona State Retirement System Board



US Equity Small Cap Asset Class

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February 16, 2007

Presentation Topics

- Small Cap Manager Reviews (aggregate)
 - Asset Class Snapshot
 - Mandates Overview
 - Excess Returns
 - Value Added in Dollars
 - ASRS Small Cap Equity Asset Class vs. Russell 2000
 - Style Analysis
- Small Cap Manager Reviews (individual)
 - Performance Analysis
 - Style Analysis
 - Organizational Issues
 - Assessment

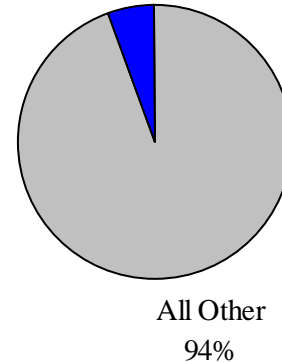
ASRS US Equity Small Cap Asset Class

December 31, 2006

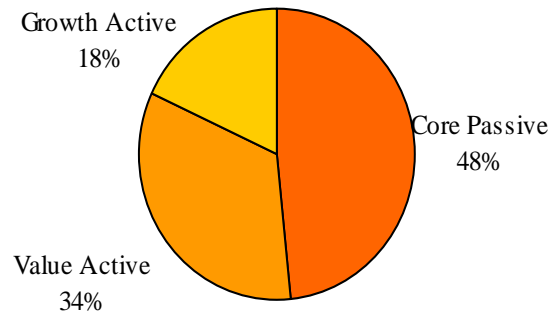
- Market Value: \$1.7b
- Passive Percent: 48%
 - Target 30% \pm 20%
- Active Style Composition:
 - Growth: 35%
 - Value: 65%
- Portfolios:
 - 1 Passive
 - 3 Active:
 - Quantitative: 2
 - Fundamental: 1
- Average Fee: 22 bp

Total Fund
\$26.3 billion

Small Cap
6%



Style Composition



ASRS US Equity Small Cap Managers Mandates

December 31, 2006

Manager	Style	Benchmark	Inception	Fee (bp)	Expected Alpha (bp)	Portfolio Assets (\$mil)	Strategy Assets (\$mil)
Active							
DFA*	Value	R2000 Val	8/31/98	21	200	\$ 557	\$ 35,984
Batterymarch*	Growth	R2000 Gr	12/31/04	70	230	\$ 140	\$ 1,322
TimesSquare	Growth	R2500 Gr	3/31/05	85	215	\$ 158	\$ 2,323
Passive							
E6**	Core	S&P 600	1/31/2007	1	10	\$ 796	\$ 796

*Effective 1/2/2007, the DFA and Batterymarch benchmarks became S&P 600/Citigroup Style Indices.

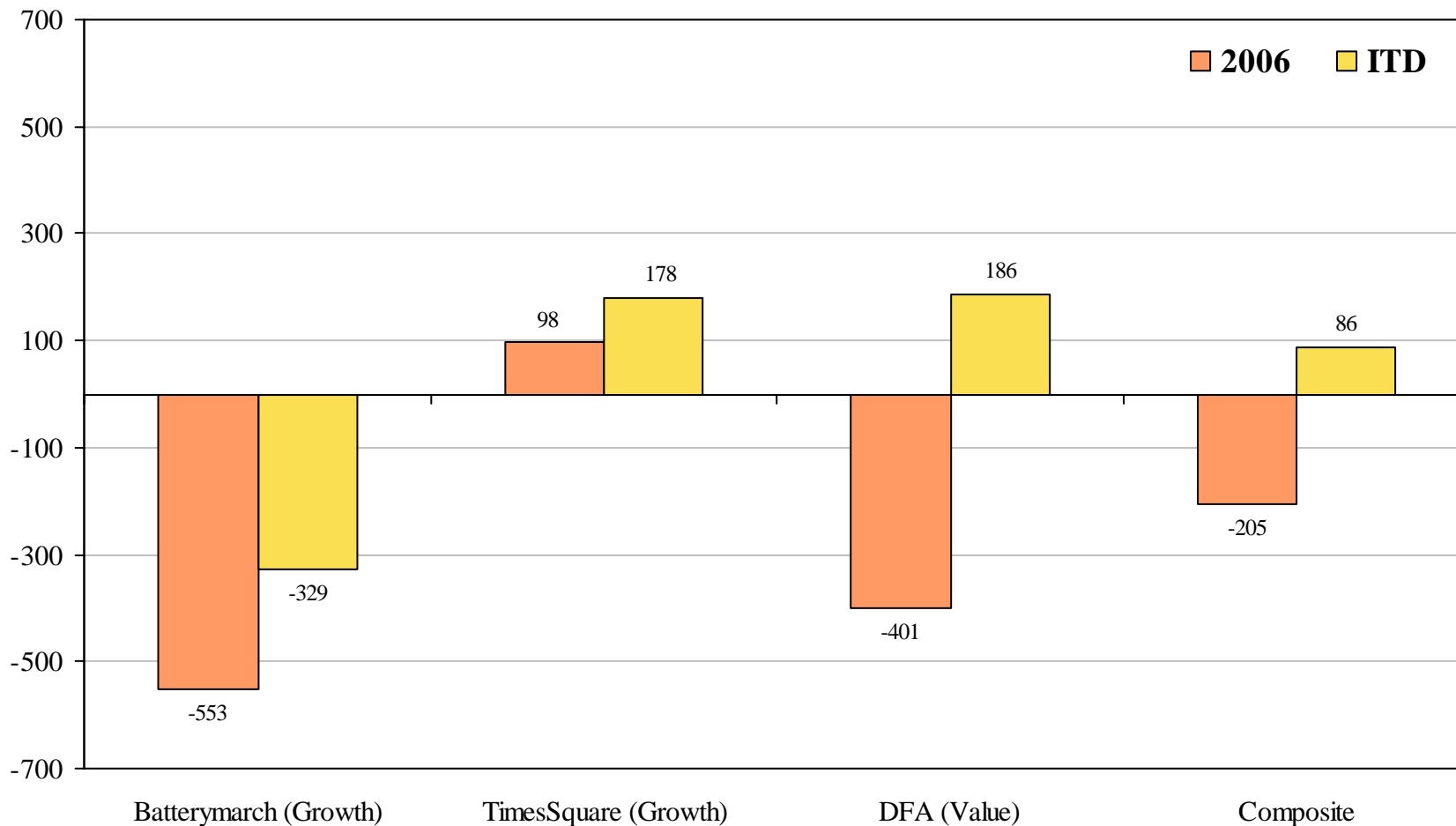
** The terminated Mellon Capital R2000 passive mandate, which included \$255 million from the active Byram mandate terminated in 2/2006, was the primary funding source for the E6 transition account.

Note: The relatively high exposure to passive is a function of the current limited universe of small-cap equity managers with favorable investment process/performance attributes and available mandate capacity. The ASRS intends to initiate an active small-cap growth manager search when conditions improve.

ASRS US Equity Small Cap Managers

Excess Returns

Period Ending December 31, 2006



SmallCap Composite includes all active and terminated managers

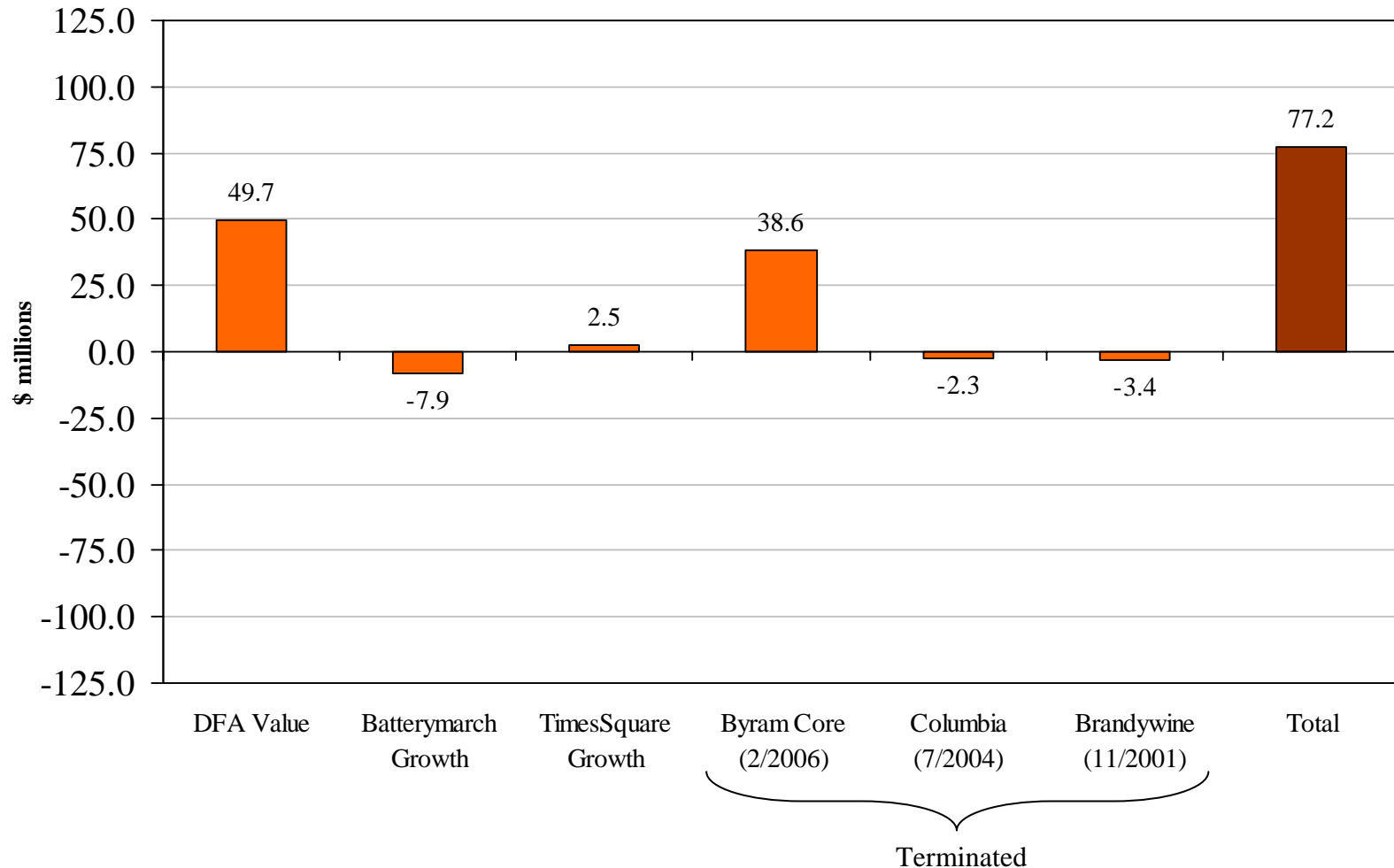
SmallCap asset class inception date: June 30, 2002

Excess returns are net of fees

ASRS US Equity Small Cap Active Managers

Value Added in Dollars

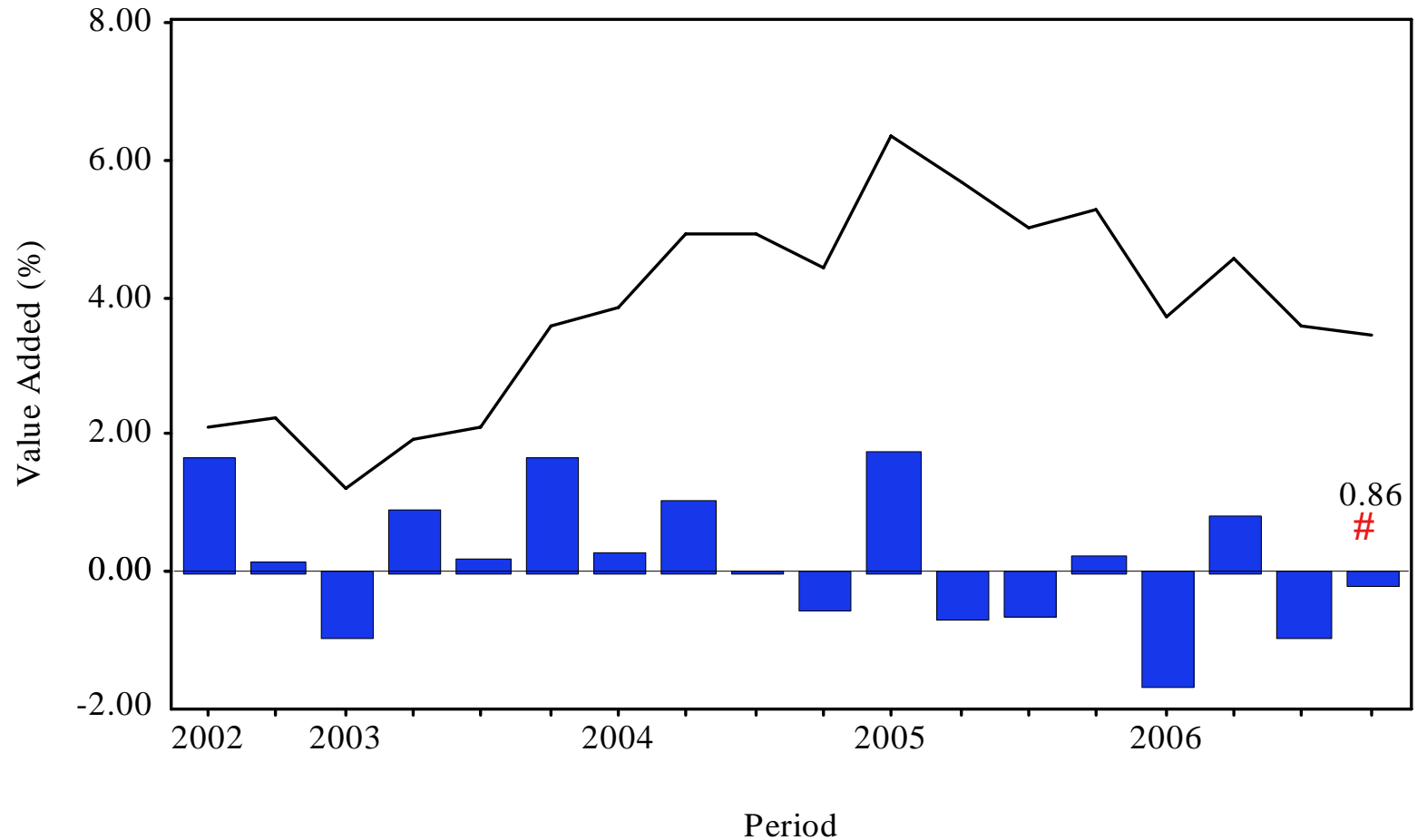
10 Year Period Ending December 31, 2006



ASRS US Equity Small Cap Asset Class

Value Added Relative to Russell 2000

July 2002 to December 2006



Annualized since 7-2002



Cumulative Value Added

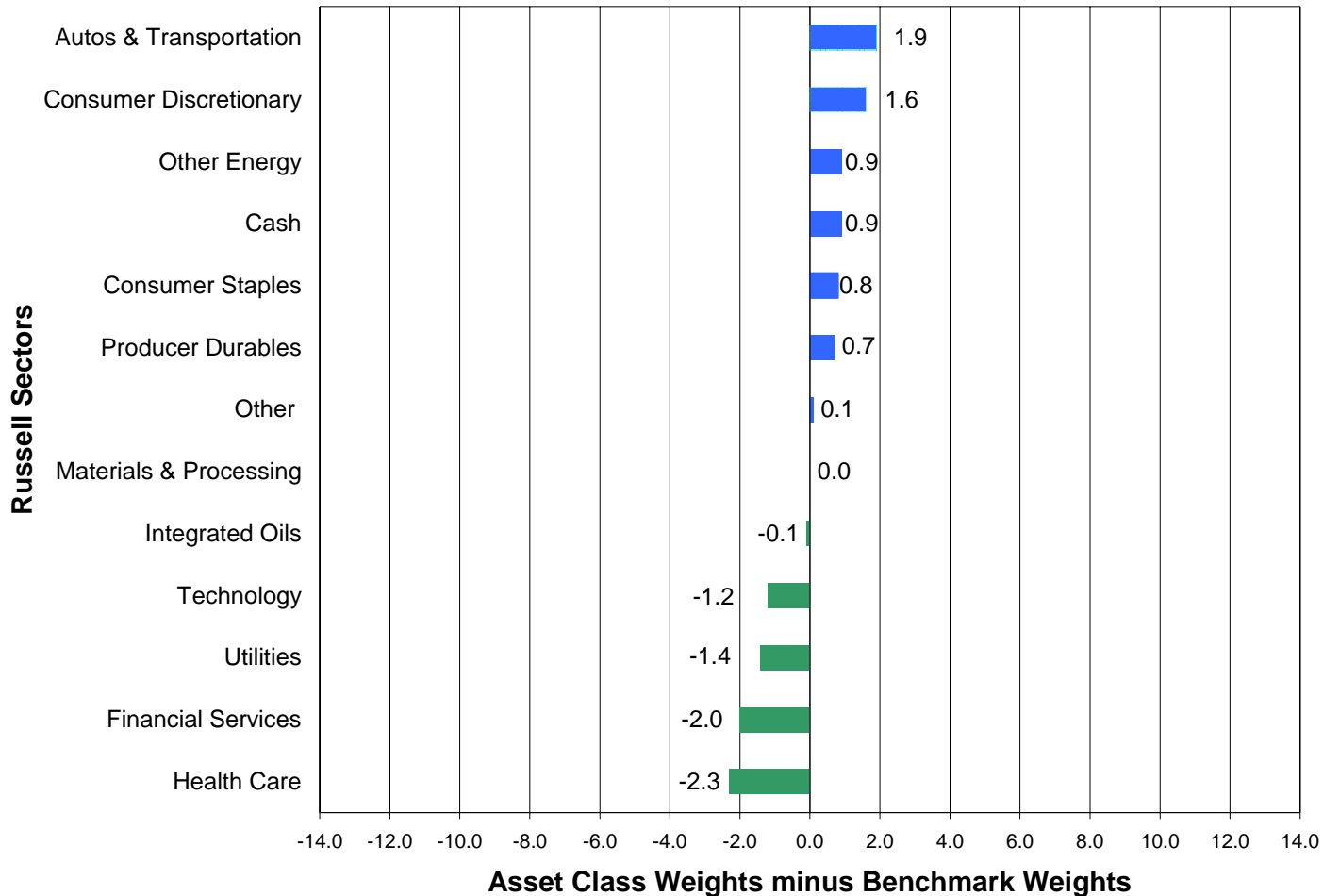


Value Added

ASRS US Equity Small Cap Asset Class

Style Analysis: Economic Sectors

As of December 31, 2006

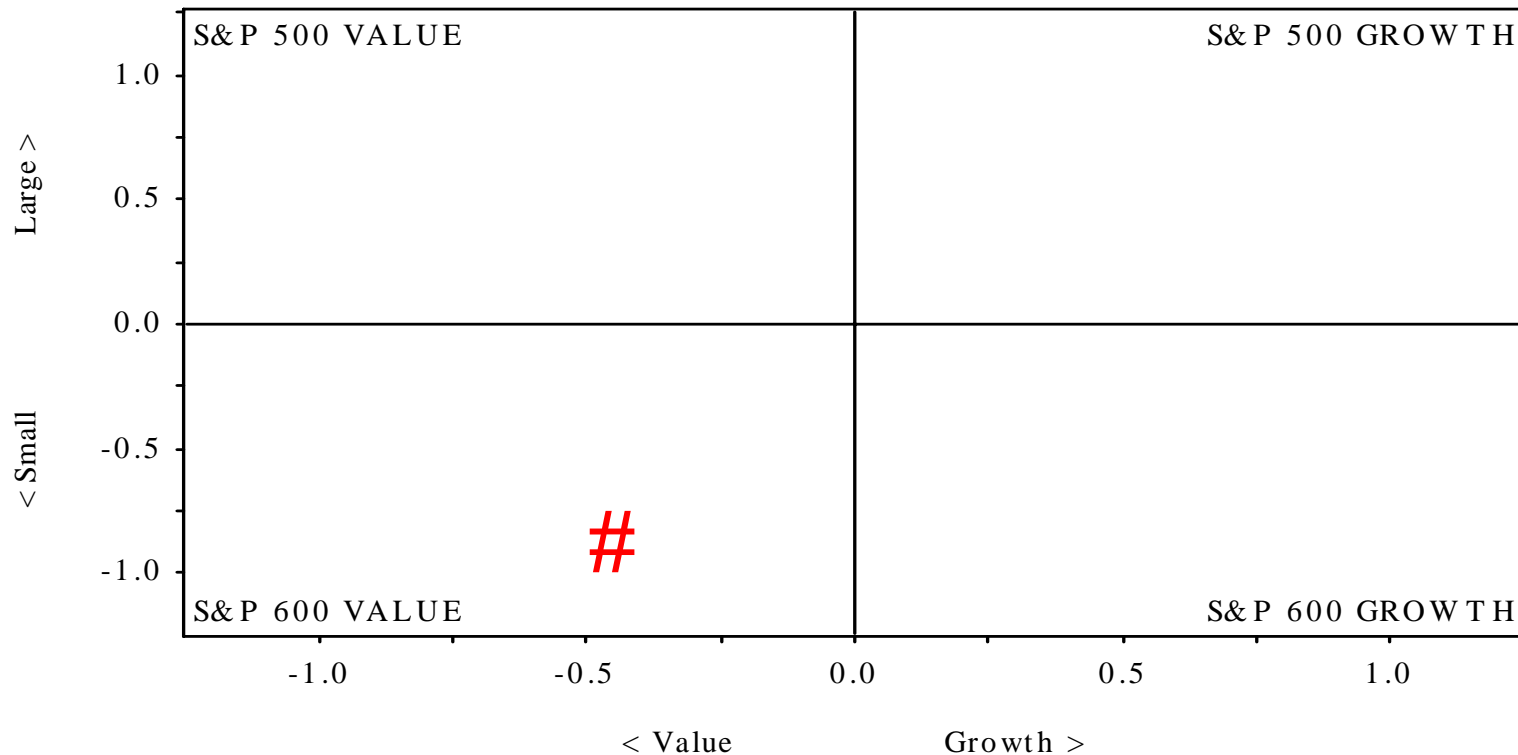


Reflects all passive and active portfolios

ASRS US Equity Small Cap Asset Class

Style Analysis

July 2002 to December 2006

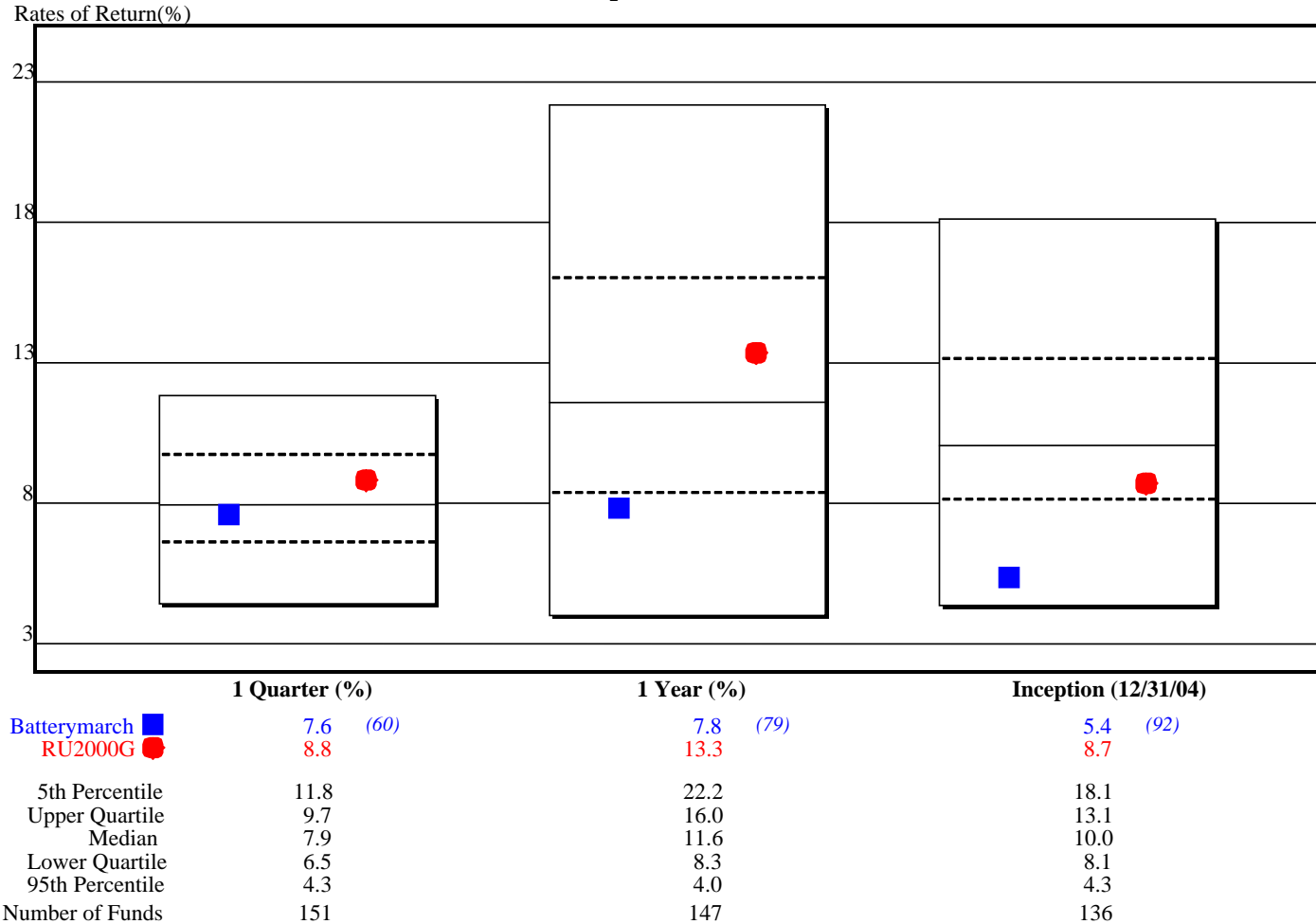


SC Asset Class

Batterymarch Financial Mgmt

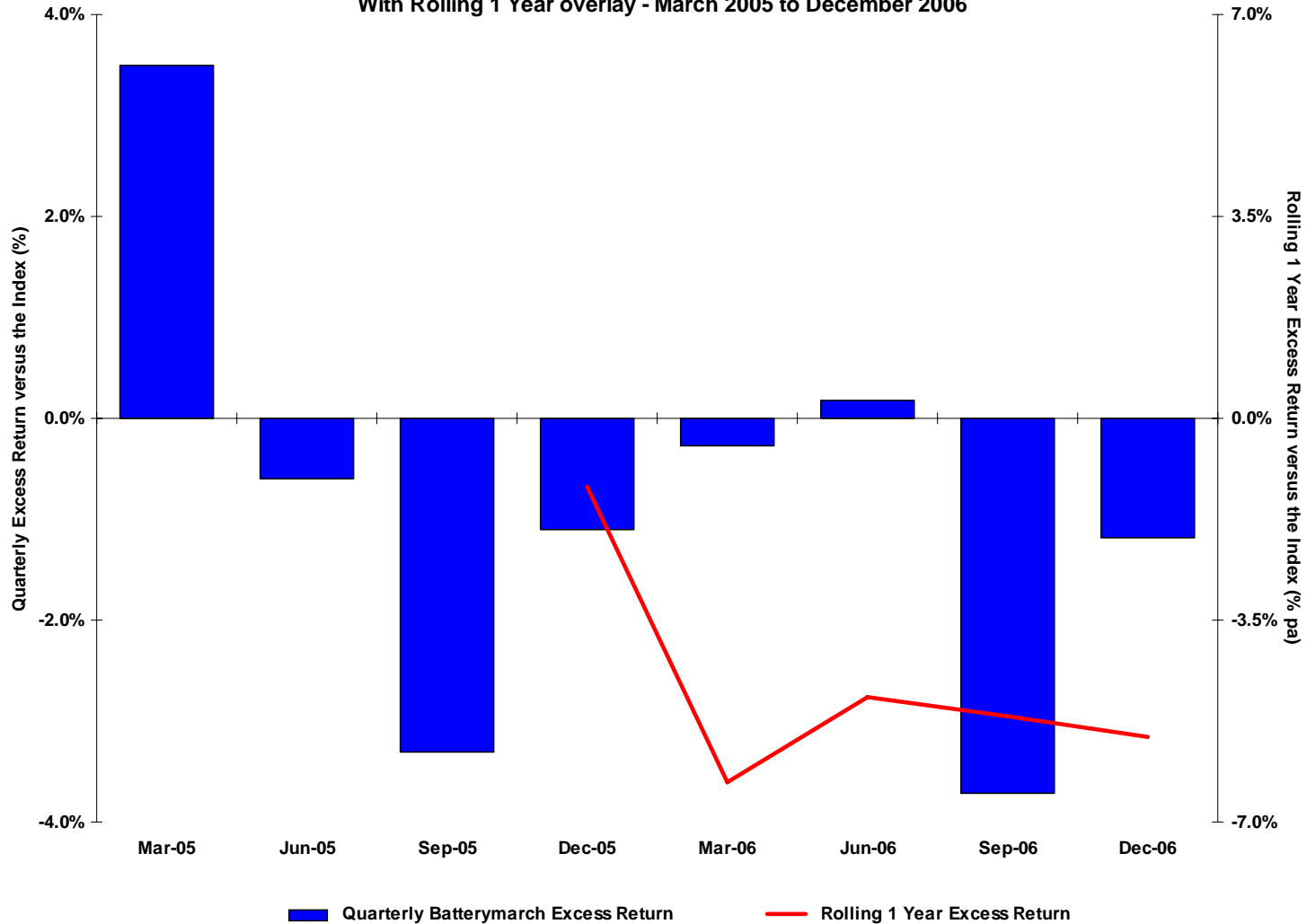
Comparison with the Mercer US Equity Small Cap Growth Universe

Performance for periods ended December 2006



Batterymarch Financial Mgmt

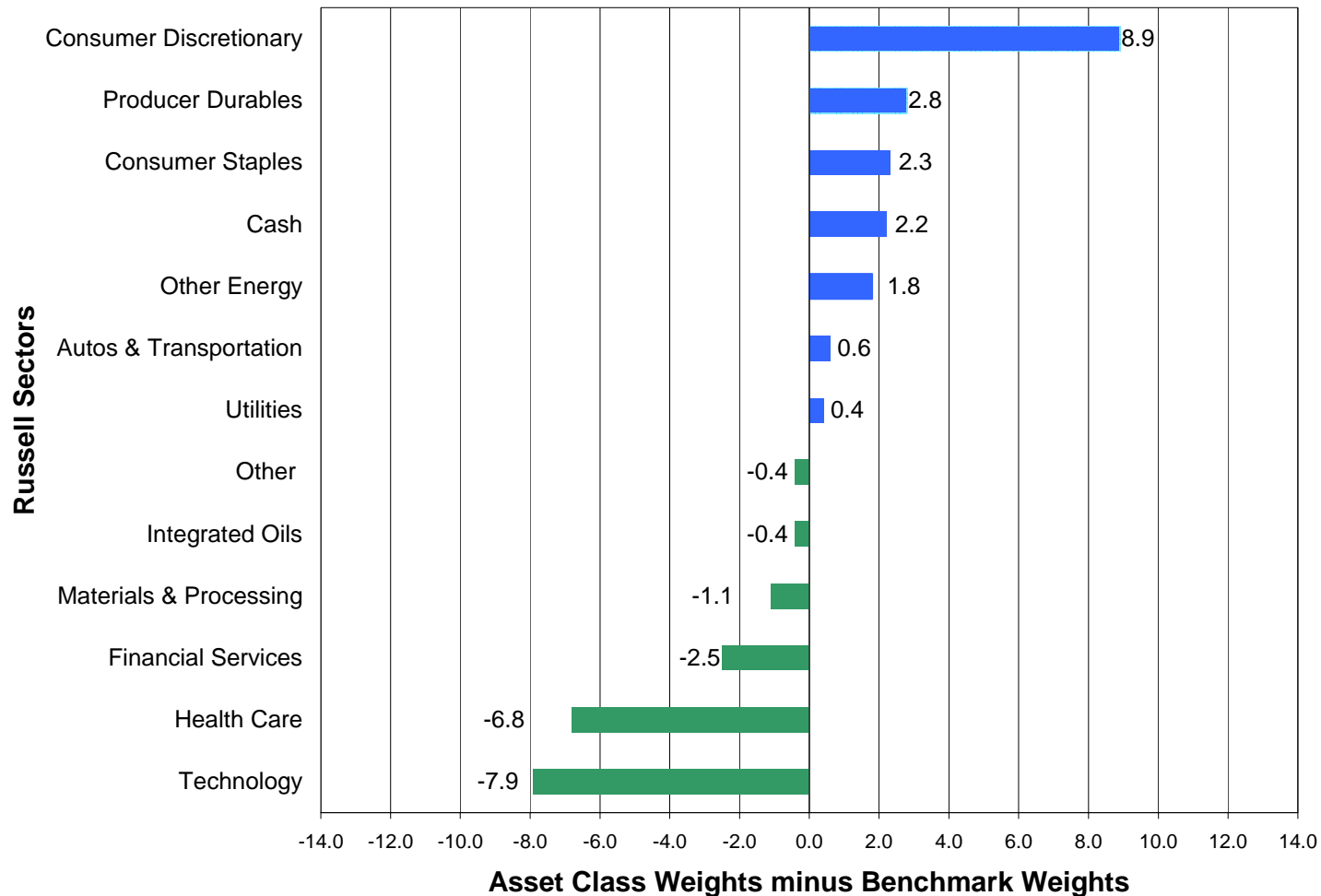
Quarterly Excess Return for Batterymarch versus the Russell 2000 Growth
With Rolling 1 Year overlay - March 2005 to December 2006



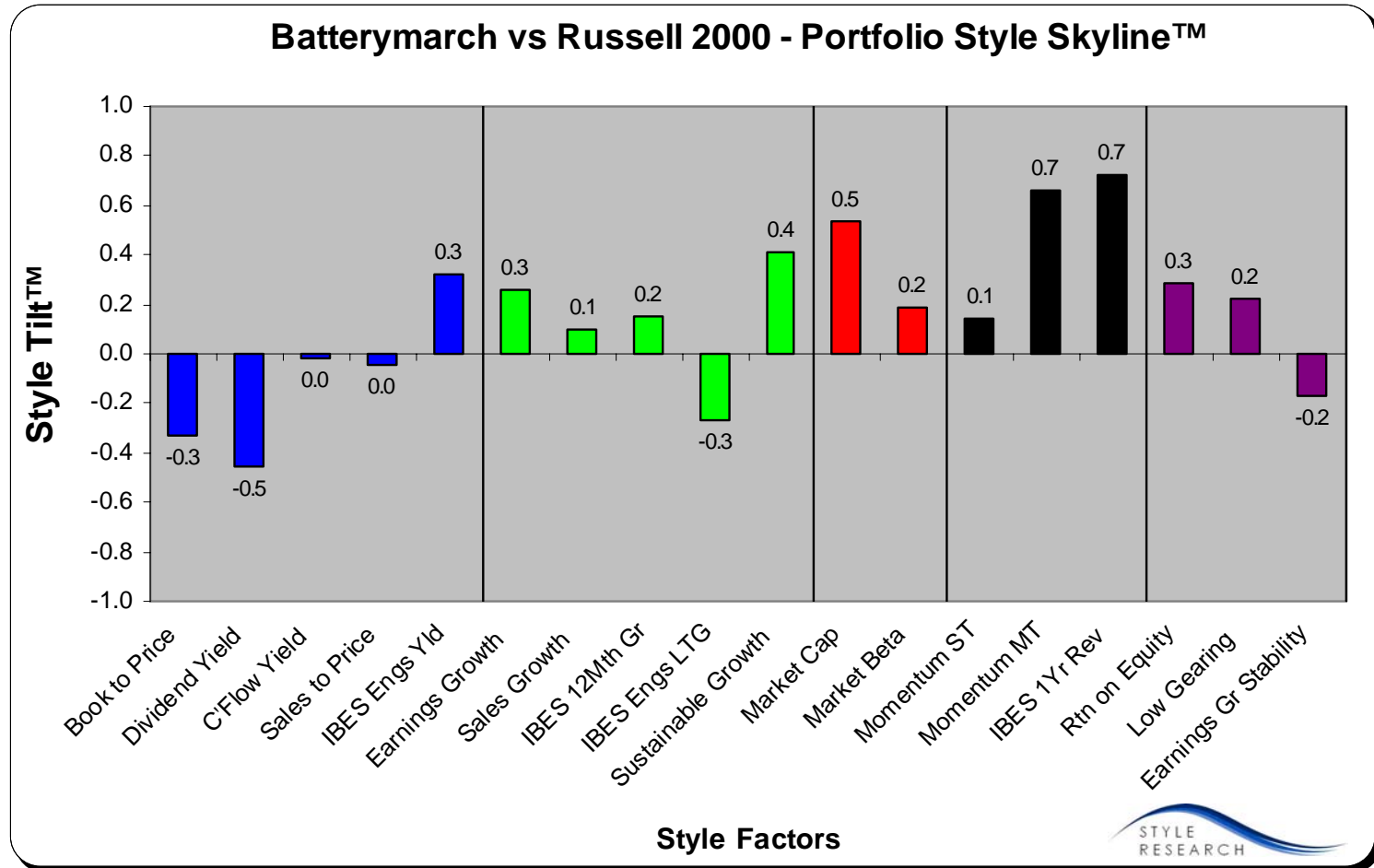
Batterymarch Financial Management

Style Analysis: Economic Sectors

As of December 31, 2006



Batterymarch Financial Management



Batterymarch Financial Management

Organizational Issues

- No organization concerns at this time.

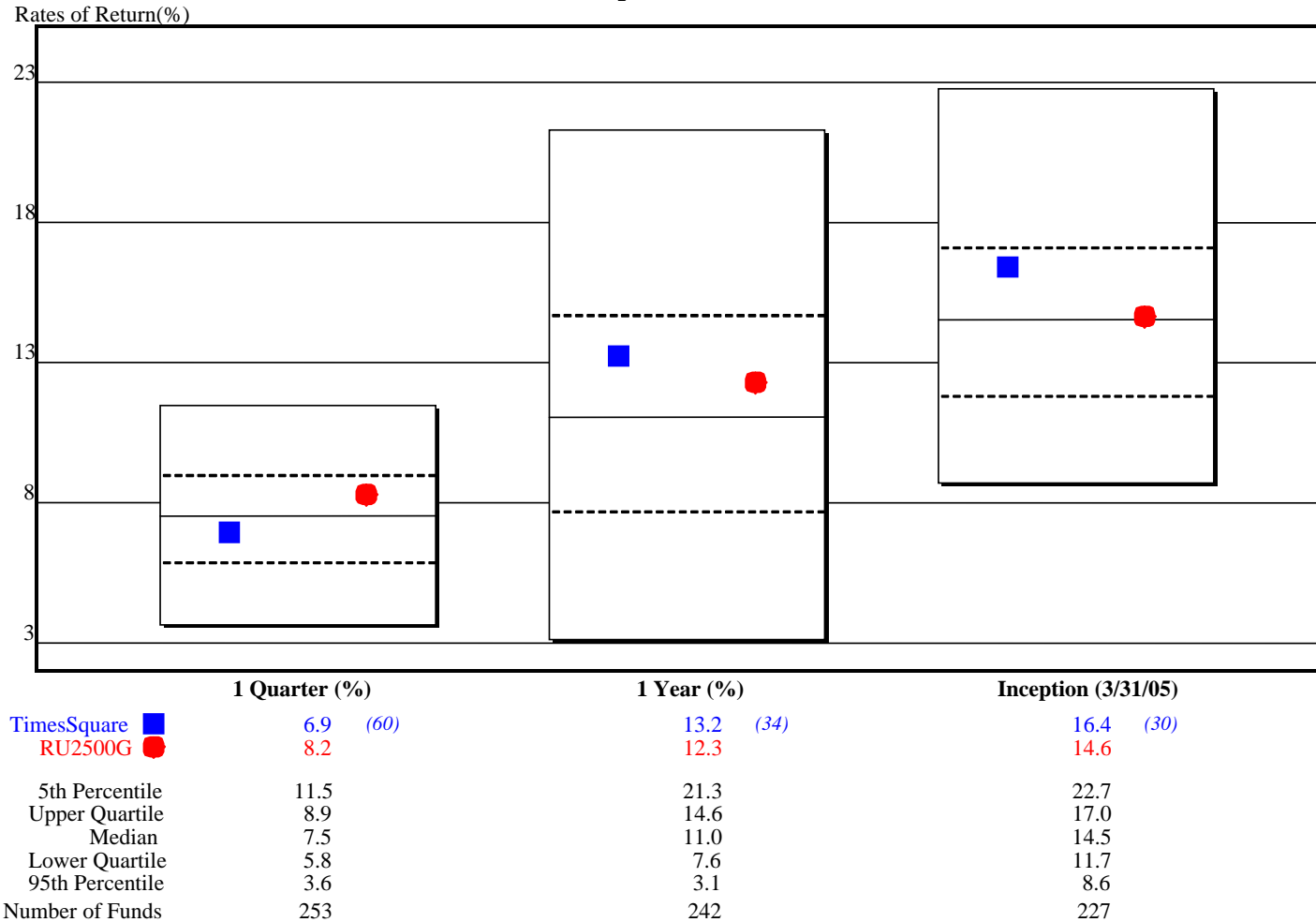
Batterymarch Financial Management Assessment

- For all periods evaluated, Batterymarch underperformed the index and placed below the universe median.
- Mercer rates this product A (above average probability of outperformance).

TimesSquare Capital Management

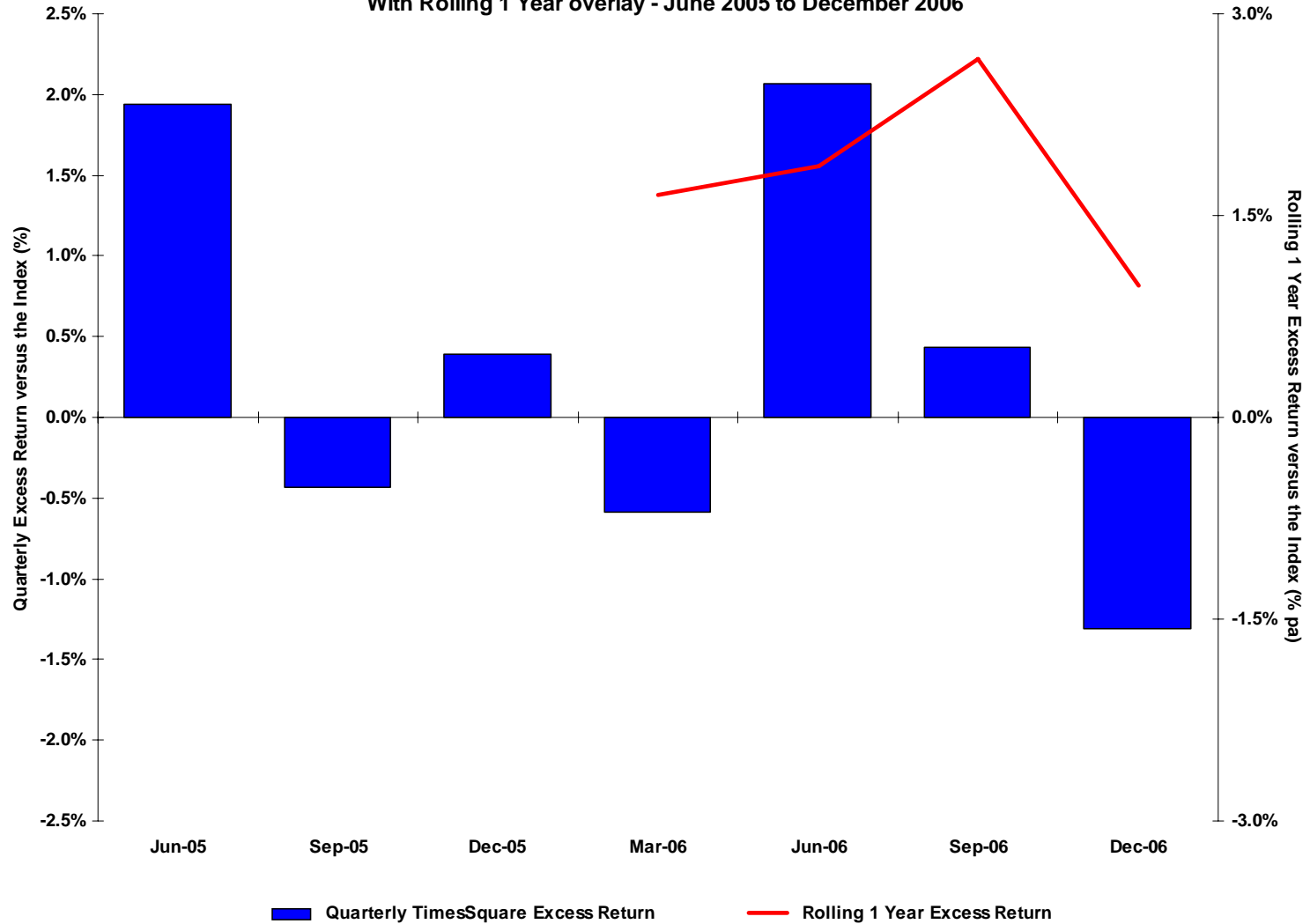
Comparison with the Mercer US Equity Small+Mid Growth Universe

Performance for periods ended December 2006



TimesSquare Capital Management

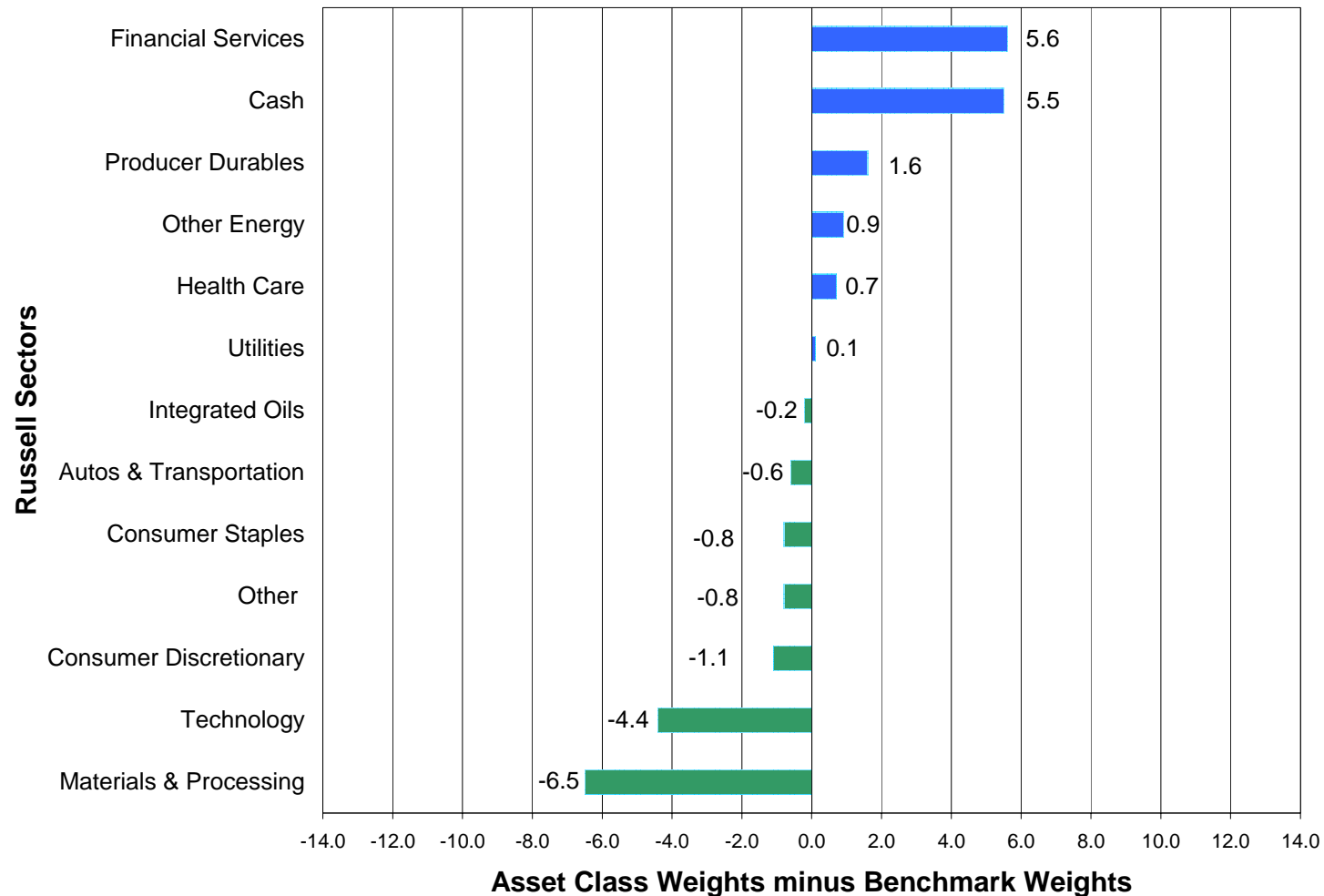
Quarterly Excess Return for TimesSquare versus the Russell 2500 Growth
With Rolling 1 Year overlay - June 2005 to December 2006



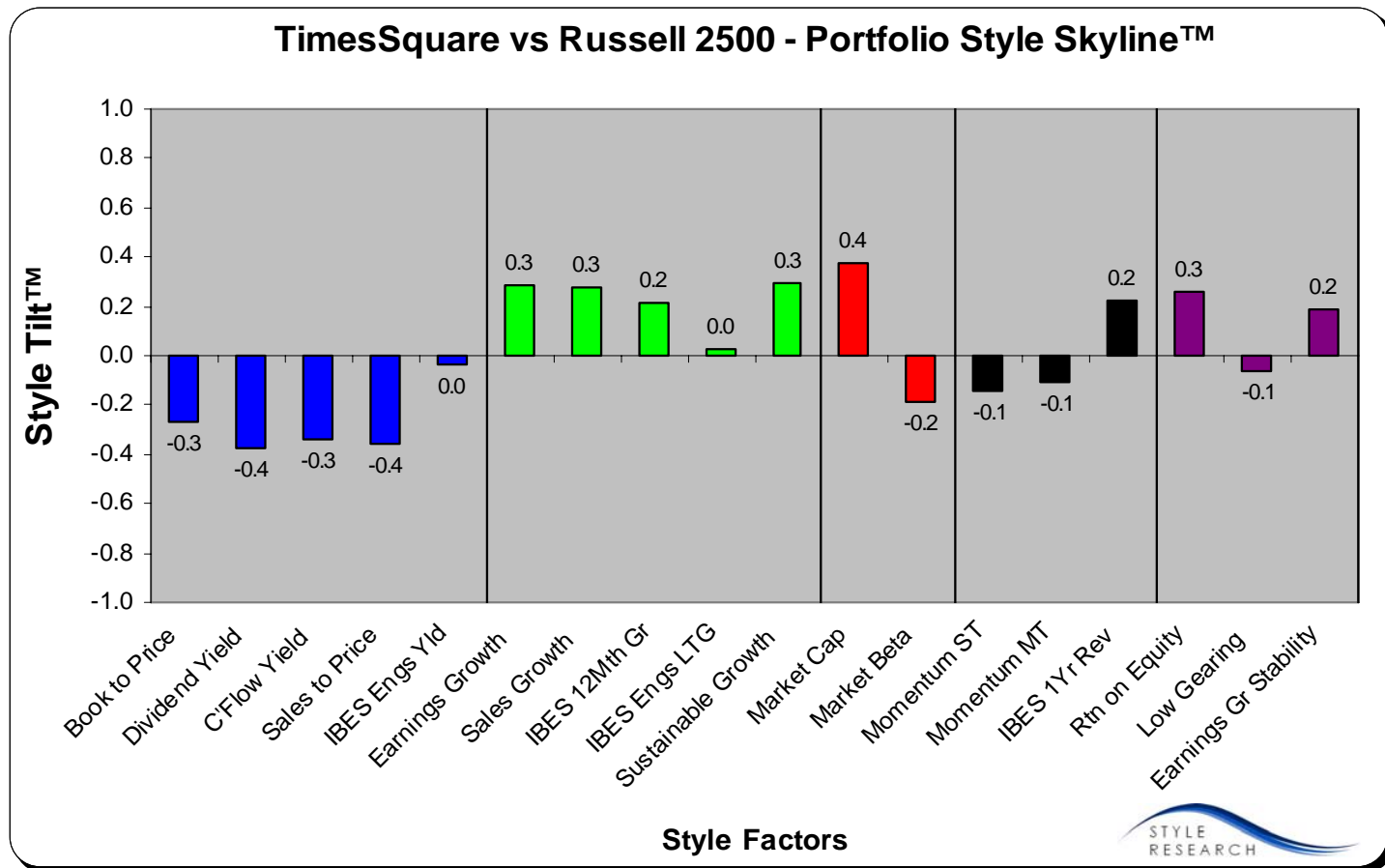
TimesSquare Capital Management

Style Analysis: Economic Sectors

As of December 31, 2006



TimesSquare Capital Management



TimesSquare Capital Management

Organizational Issues

- No organization concerns at this time.

TimesSquare Capital Management Assessment

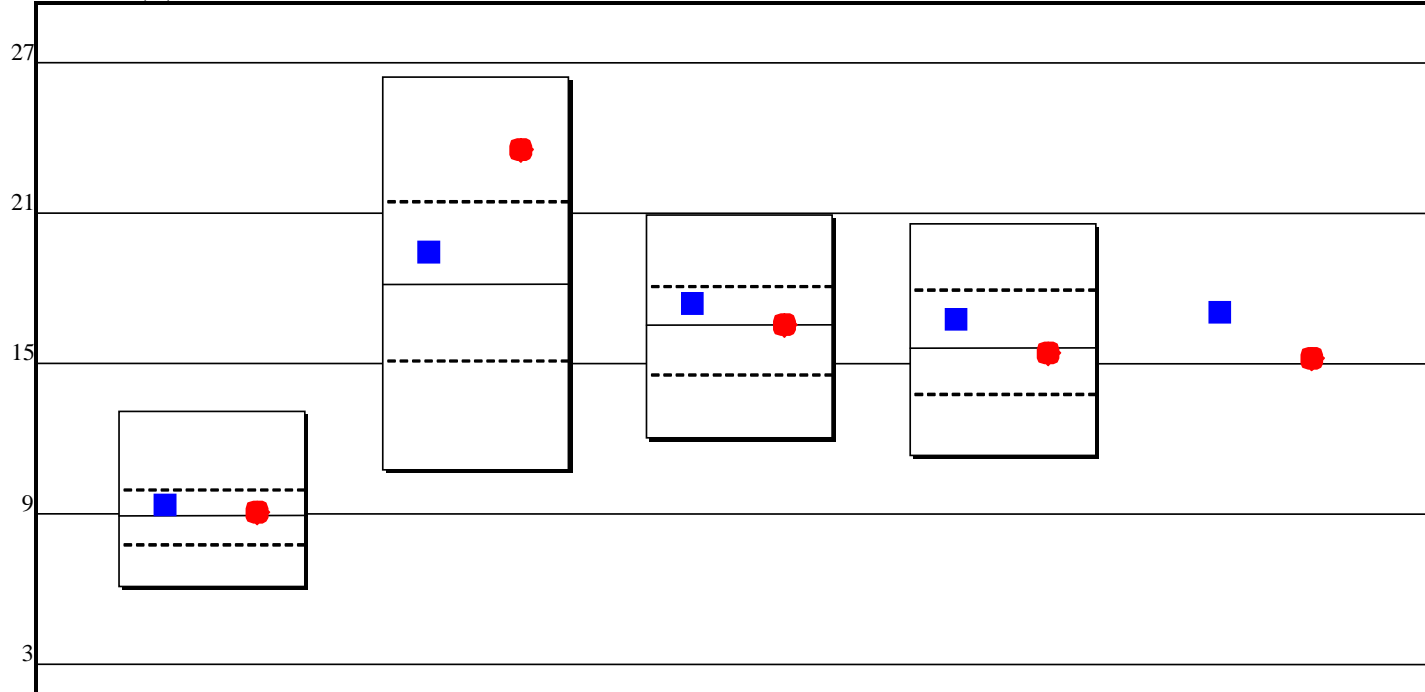
- For the recent quarter, TimesSquare underperformed the index and placed below the universe median. For all other periods evaluated, the portfolio outperformed its benchmarks.
- Mercer rates this product A (above average probability of outperformance).

Dimensional Fund Advisors Small Cap

Comparison with the Mercer US Equity Small Cap Value Universe

Performance for periods ended December 2006

Rates of Return(%)



1 Quarter (%)

1 Year (%)

3 Years (%pa)

5 Years (%pa)

Inception (8/31/98)

DFA SC ■ 9.3 (34)
RU2000V ● 9.0

19.5 (38)
23.5

17.4 (35)
16.5

16.7 (40)
15.4

17.1
15.2

5th Percentile 13.1
Upper Quartile 9.9
Median 8.9
Lower Quartile 7.7
95th Percentile 6.1
Number of Funds 149

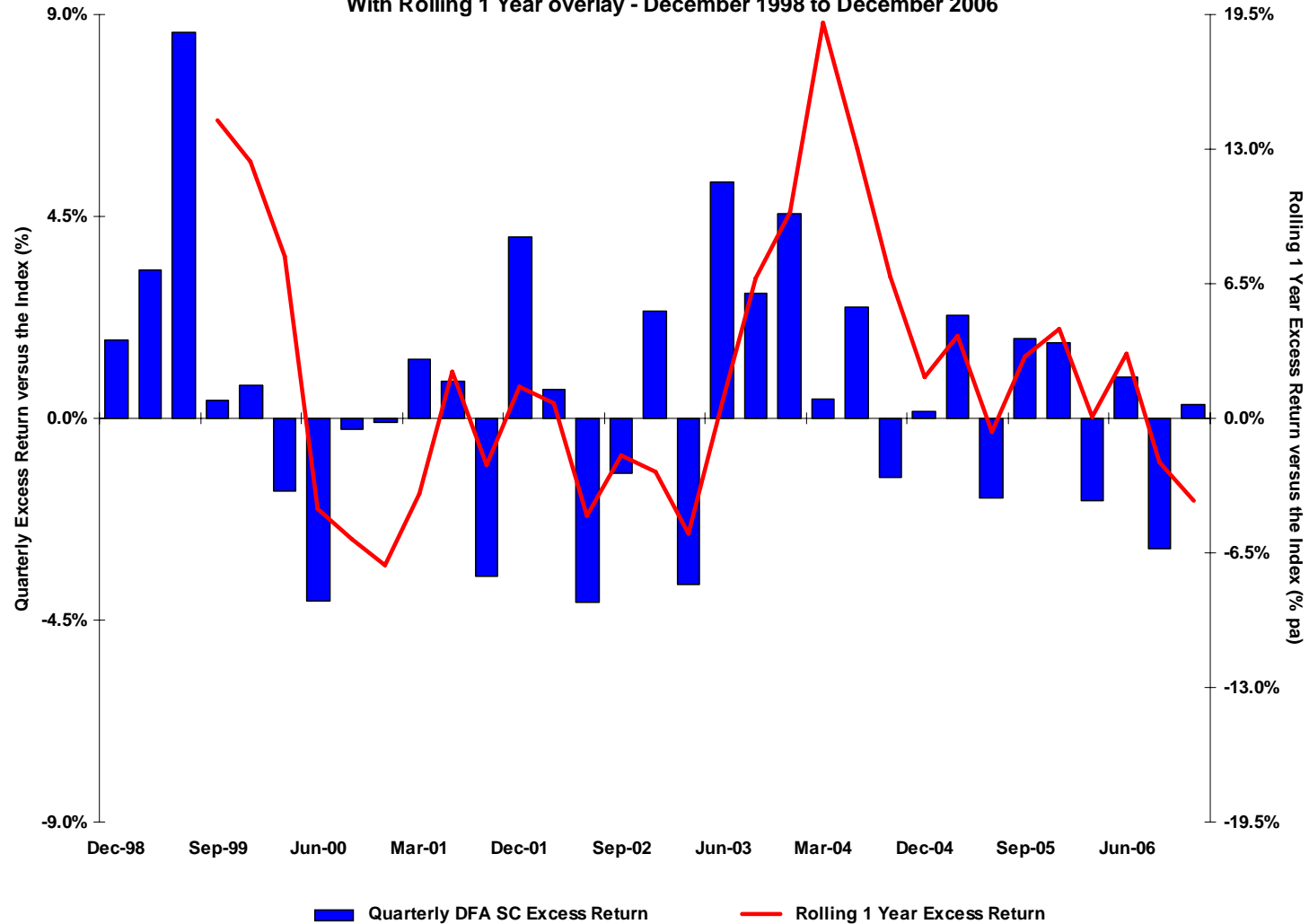
26.4
21.4
18.1
15.1
10.7
145

20.9
18.0
16.5
14.5
11.9
138

20.5
17.9
15.6
13.7
11.3
122

Dimensional Fund Advisors Small Cap

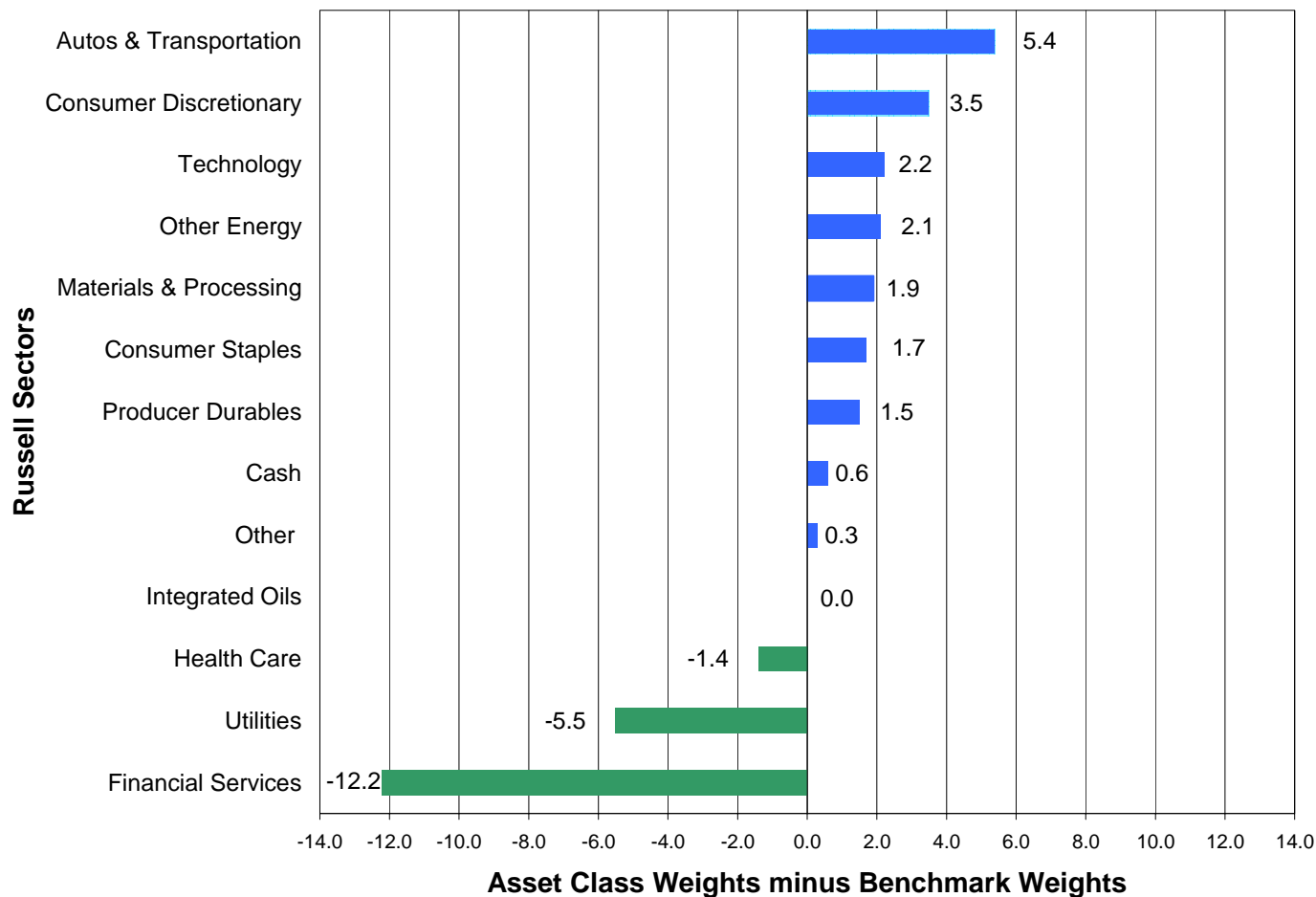
Quarterly Excess Return for DFA SC versus the Russell 2000 Value
With Rolling 1 Year overlay - December 1998 to December 2006



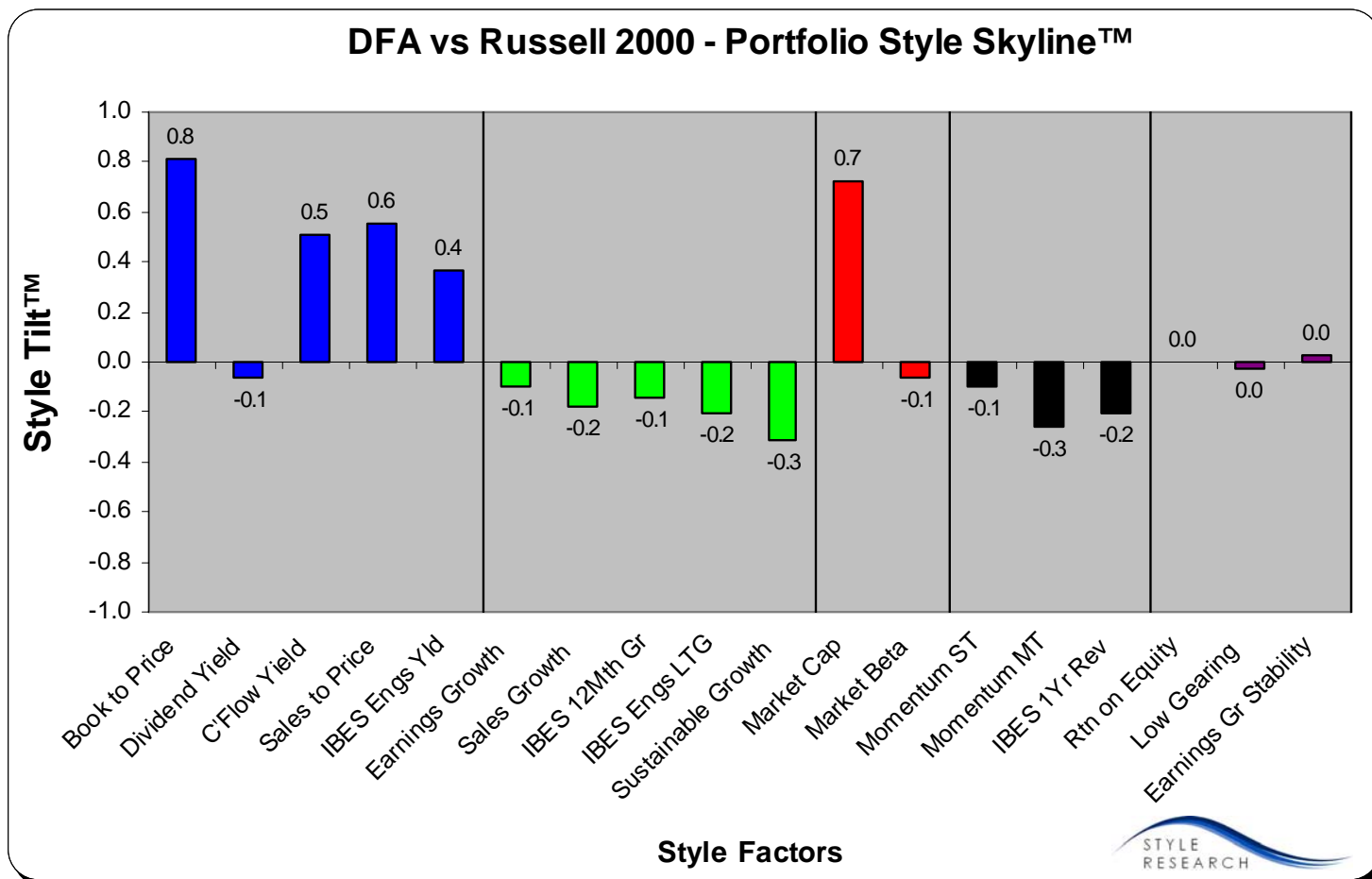
Dimensional Fund Advisors

Style Analysis: Economic Sectors

As of December 31, 2006



Dimensional Fund Advisors



Dimensional Fund Advisors

Organizational Issues

- No organization concerns at this time.

Dimensional Fund Advisors Assessment

- DFA outperformed the index for all periods evaluated except 1 year. The portfolio placed above the universe median for all periods.
- Mercer rates this product B (average probability of outperformance).

Mercer Ratings Scale

A, A- = Above average probability of outperformance

B+, B, B- = Average probability of outperformance

C = Below average probability of outperformance

N = Not rated

What Do the Ratings Mean?

- Mercer's view on prospective future performance relative to benchmark over the medium term (3 to 5 yrs)
- Relative to risk of underperforming benchmark
- May or may not be in keeping with past performance